plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
lan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
n plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan **plan:build**
n plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
lan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan
plan plan plan plan plan

OPTI
CANADA INC.

Forward-looking Information

This annual report may contain forward-looking statements that involve risks and uncertainties, including those associated with construction, cost escalation, regulatory approval, resource development and ability to access sufficient capital from external sources. As a consequence, readers are cautioned not to place undue reliance on those forward-looking statements, which reflect management's analysis only as at the date hereof.

All dollar figures in this annual report are Canadian unless otherwise stated.

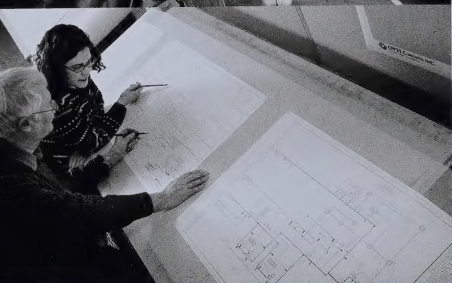
→ A new way to upgrade oil sands at the lowest cost.

→ More than four years of intensive planning, engineering, evaluation and preparation.

→ A massive bitumen resource, booked at 1.9 billion barrels recoverable.

An opportunity to change how the world looks at oil sands development. →

OPTI CANADA INC.



- Over 400 experienced energy specialists are working in a uniquely integrated way to plan, design and engineer the Long Lake Project.
- Dedicated teams concentrate on specific sub-projects, enhancing inter-disciplinary communication and project focus.
- Effective, consistent execution is the key objective shared by all Long Lake Project employees, consultants and contractors.

OPTI Canada Inc. is an oil sands innovator, ready to build the $3.4 billion Long Lake Project with our 50/50 joint-venture partner Nexen. Long Lake is Canada's first oil sands development to combine steam-assisted gravity drainage (SAGD) bitumen recovery with the next generation OrCrude™ process and on-site upgrading technologies.

Our team of energy specialists has advanced plans to begin building the first phase of Long Lake starting in the second half of 2004. When fully operational, Long Lake will produce 72,000 barrels per day (bbls/d) of bitumen, which will be upgraded to produce approximately 60,000 bbls/d of premium synthetic crude oil. Long Lake's Phase 2 has the potential to more than double the size of the Project.

Since we began in 1999, OPTI's focus has been on planning, and a disciplined commitment to upfront project definition. Cost estimates are based on designs where more than 15% of engineering has been completed – two to three times that of similar projects at a comparable stage. More than 80% of the overall unit engineering for the Long Lake Project will be completed prior to the start of site construction. A high degree of equipment modularization and in-shop fabrication, and the organization of the Project into sub-components matched to contractor capabilities are other key strategies supporting budget and timing targets.

We plan to deliver.

plan : build

The Long Lake Project is a pure oil sands play in the fastest-growing segment of the energy sector – one that has consistently outperformed conventional oil and gas producers and the S&P 500.

Situated in the centre of the world's largest oil sands deposit, in the Athabasca region of northern Alberta, Long Lake holds an estimated 7 billion barrels of bitumen-in-place, of which 1.9 billion barrels are deemed recoverable. This translates into a reserve life of 35+ years, without the exploration risk or decline rates of conventional oil and gas production. OPTI and Nexen are also pursuing other opportunities in the Athabasca region, including the Jackfish Project, which has 4 billion barrels of potential bitumen-in-place, and future expansion opportunities as a regional upgrader.

Production growth for oil sands producers continues to be strong and predictable. By 2010, oil sands are forecast to account for 70% of Canada's total oil production. Pure oil sands plays have low per unit finding and development costs. In Alberta, royalties are just 1% of revenue until capital costs and a return on costs is recovered. Expansion is encouraged to build long-term developments, adding additional value to existing infrastructure.

Oil sands outperform.

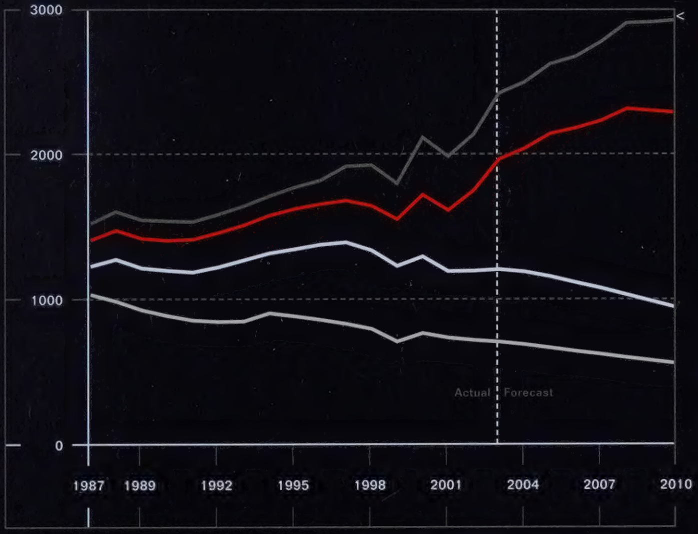
^ Significant bitumen deposits, like the 7 billion barrels of bitumen-in-place at Long Lake, support development with predictable long-term growth and cash flow more typical of a manufacturing operation than a conventional oil and gas operation.

^ Regulatory approval is in place to expand Long Lake to 140,000 bbls/d of upgrading capacity, strengthening its position to serve as a regional upgrader in the Athabasca region.

: pure play

WESTERN CANADIAN CRUDE OIL FORECAST

(thousands of barrels per day)

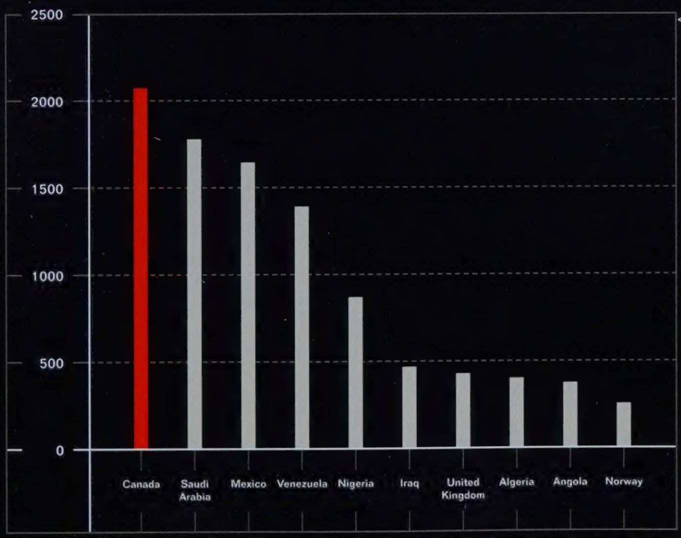


Production growth for oil sands is estimated to accelerate significantly in the next 10 years.

Source: Canadian Association of Petroleum Producers

U.S. TOP-10 OIL SUPPLIERS

(millions of barrels per day)



Canada is now the number one oil supplier to the U.S. U.S. imports are forecast to increase 33% by 2010.

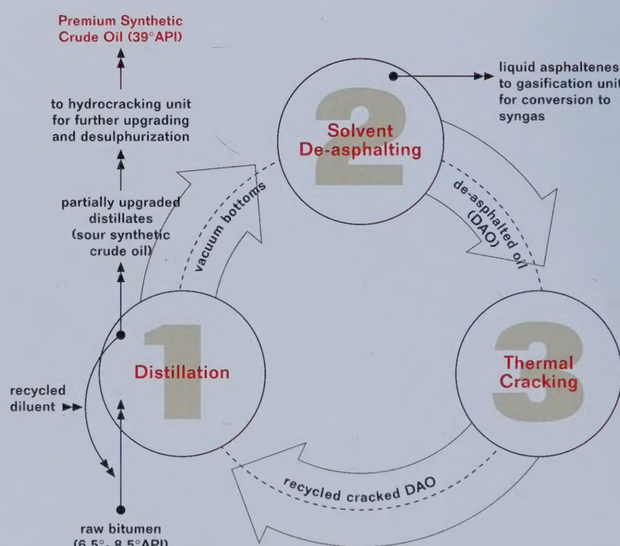
Source: November 2003 Petroleum Supply Monthly – crude & petroleum products

The OrCrude™ process is a new way to upgrade and capture the energy value contained in bitumen. OPTI holds the exclusive Canadian license to this proven, patented process and brings it to the Long Lake Project.

Simple, easily operated and highly predictable, OrCrude™ employs well-understood process methods that have been in use in refineries for more than 70 years.

Three basic bitumen upgrading processes work together to create OrCrude™: distillation, solvent de-asphalting and thermal cracking.

^ OPTI's OrCrude™ demonstration plant has applied this proven, patented process to more than 250,000 barrels of Athabasca bitumen with excellent results.

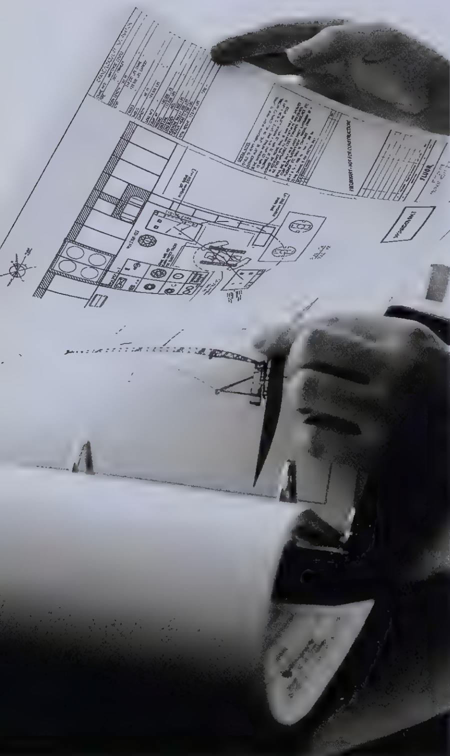


: proven process

The OrCrude™ process removes asphaltene by-product in liquid form from the bitumen, enabling cost-effective gasification of the by-product to produce hydrogen-rich synthetic gas. The synthetic gas serves as an alternate fuel source for SAGD bitumen recovery operations. Through the application of the OrCrude™ process, raw bitumen is transformed into 20°API crude oil. Further upgrading by hydrocracking elevates this to 39°API, creating a premium sweet crude oil with superior refining characteristics.

ORMAT Industries Ltd., OPTI's founding shareholder, designed and built the OrCrude™ demonstration plant near Burnt Lake, Alberta in 2001. Since then, until closure in late 2003, the OPTI-operated plant efficiently processed more than 250,000 barrels of bitumen from five Athabasca in-situ projects, including Long Lake. Test results exceeded expectations for capacity, reliability and operability while providing valuable design input for the full-scale commercial unit.

Innovation from integration.



^ Integrating the OrCrude™ process with conventional hydrocracking and gasification technologies will enable OPTI to eliminate natural gas from Long Lake's operating cost structure.

The OPTI/Nexen Long Lake Project plans to achieve the lowest operating costs and the highest netbacks for three key reasons.

1 **Virtually no natural gas** – the largest and most volatile cost facing conventional stand-alone SAGD developers. The integrated OrCrude™ upgrader will generate enough gas and hydrogen to fuel virtually all of Long Lake's commercial scale SAGD operation, a related cogeneration facility and upgrader, delivering a $5 to $9 per barrel operating cost advantage compared with other oil sands producers. Natural gas typically represents 50% to 70% of a stand-alone SAGD development's operating cost structure.

2 **Upgrading adds value.** Long Lake's PSC will be the highest quality crude ever made from Athabasca bitumen. It is fully upgraded, so there's no exposure to heavy oil differentials – a growing concern in view of forecasted increases in bitumen production. Long Lake's premium PSC has been designed to maximize refinery yields, has higher octane and distillate cetane values and lower sulphur content – characteristics that will build strong market share and receive favourable pricing.

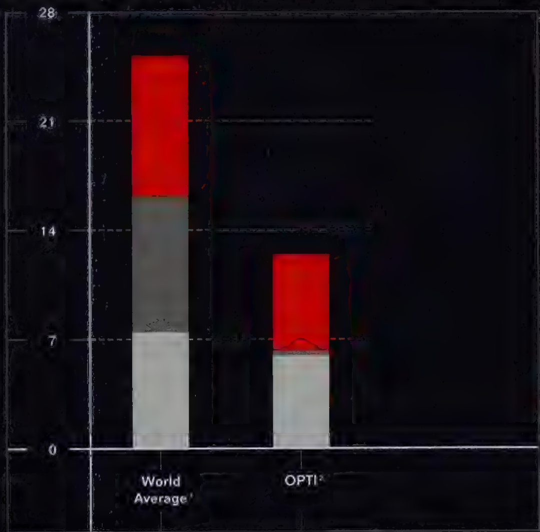
3 **No diluent.** Unlike the Long Lake Project, stand-alone SAGD operations produce heavy oil that requires the addition of a diluent for transportation, adding another volatile cost component to their structures.

Together, these three factors give OPTI a powerful economic edge.

Best-in-class operating costs.

: lowest costs

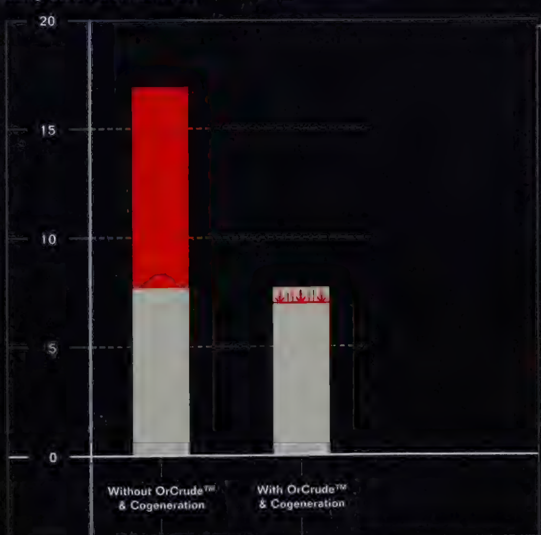
TOTAL COST PER BARREL
World Average vs. OPTI (Cdn$)



1 : TD Newcrest, 2002 actual
2 : OPTI, 2008 estimate

The total full cycle costs per barrel in the oil sands compare favourably to the World Average.

OPERATING COST PER BARREL COMPARISON
Long Lake Fuel/Non-Fuel (Cdn$)



Source: McDaniel & Associates, 2008 estimate

OPTI's OrCrude™ process and its proven ability to generate fuel, as well as the Project's cogeneration unit that will generate power, removes the substantial and volatile cost of natural gas fuel from Long Lake's operating cost structure.

^ OPTI's environmental technicians conduct source water-well quality analysis, as part of Long Lake's comprehensive air, land and water monitoring program.

> The Long Lake Project team has made stewardship of water resources a priority. No surface water will be used and more than 90% of water used in SAGD operations will be recycled.

>> OPTI's innovative use of constraints mapping for siting facilities at Long Lake has been identified as a best practice by Alberta Environment.

A commitment to safe, sustainable, socially responsible development has characterized the OPTI/Nexen Long Lake Project from the start. Rigorous environmental planning and the application of environmental innovations support this ethic. We are proud to be Alberta's first integrated oil sands development to have received regulatory approval without a public hearing.

The Long Lake Project is also Alberta's first oil sands upgrading development to commit to not using surface water in its operations. Non-potable water and brackish water will be used to reduce the consumption of fresh water and, in the SAGD operation, more than 90% of the water will be recycled and turned into steam.

Long Lake's well-conceived, smaller-scale development approach will result in much less surface disturbance. In total, less than 1,000 hectares of land are required for the project. Long Lake's integrated upgrading facilities will not include tailing ponds or generate the significant waste by-products associated with mining operations.

: environmental leadership

While our more energy-efficient OrCrude™ upgrader increases carbon dioxide emissions per barrel locally, our higher-quality sweet crude oil results in lower carbon dioxide emissions after refinery processing. Lifecycle carbon dioxide emissions are comparable to other projects that consume the full bitumen barrel. In addition, the very low sulphur content of Long Lake's PSC already exceeds the 2006 federal Clean Fuels requirements.

Rigorous environmental planning.

^ Contributing to the quality of life enjoyed by local residents is part of Long Lake's community ethic. Anzac Community School recently received the gift of music – in the form of instruments for a 24-piece school band.

^ Improving access to non-emergency health and dental services for the residents in rural areas outlying Fort McMurray is the objective of the Northern Lights Regional Health Foundation mobile van.

Building open, long-term relationships with the local community through meaningful stakeholder consultation is viewed as vital to the success of the OPTI/Nexen Long Lake Project. A joint Community Consultation & Regulatory Affairs Team is responsible for liaison with Long Lake's stakeholders – local residents, aboriginal communities, businesses, industry, government, regulatory agencies, non-government organizations and other special interest groups.

OPTI and Nexen maintain that effective stakeholder consultation must be integrated directly into the project decision-making process. That way, potential concerns can be identified and solved together on an ongoing basis.

Both OPTI and Nexen are signatories to the Athabasca Tribal Council's (ATC) All Parties Core Agreement. This agreement was formalized in 2003 among the five First Nations of the ATC, provincial and federal governments, and 15 representatives from oil sands, energy and pulp and paper industries. Its intent is to support the goals of economic growth and sustainability for the ATC member First Nations, serve as a mechanism to help manage the impacts of responsible industrial development and set standards for industrial consultation practices in the Athabasca region.

: community involvement

^ The new Chipewyan Prairie Multiplex is an energy-efficient building that will serve as a hub for social, cultural and educational initiatives in the community of Janvier, Alberta, while providing local employment during its construction.

Another effort to promote cooperation is the newly formed Willow Lake/Long Lake/Surmont Advisory Council. Formed by OPTI/Nexen and another regional SAGD developer, the goal is to minimize the overall impact of operations and find innovative ways to work together.

Meaningful, integrated consultation.

Sid Dykstra

President & CEO, OPTI Canada Inc.

To our shareholders:

July 1999 > OPTI Canada Inc. was created by parent company ORMAT Industries Ltd. to commercialize the OrCrude™ Process and develop bitumen projects in Canada. OPTI obtains the rights for development of an oil sands project on Lease 27.

It gives me great pleasure to present OPTI Canada's first annual report.

Since our inception in mid-1999, OPTI has focused on the corporate objective of commercializing OrCrude™, a proprietary bitumen upgrading process. The OrCrude™ Process, when combined with gasification, addresses the biggest issue facing oil sands development today, which is the high cost and volatility of natural gas to serve as fuel for SAGD bitumen recovery. It does so by essentially eliminating natural gas use, providing a $5 to $9 per barrel cash operating advantage over competitive oil sands projects. Combining the OrCrude™ Process with hydrocracking addresses two other key issues for oil sands producers – the relatively low value of heavy crude oils, and the need for diluents to transport them to market. OrCrude™, when combined with hydrocracking and gasification technologies, transforms raw bitumen into 39°API premium sweet crude oil, which is expected to have a higher market value and attract strong demand from refiners while eliminating heavy-to-light oil price differentials. The requirement for diluents necessary for transporting heavier oil to market will also be removed, reinforcing the competitive operating cost advantage that sets us apart from other oil sands developers.

The OrCrude™ Process will make its commercial debut at the Long Lake integrated oil sands project, located southeast of Fort McMurray in northern Alberta. In four short years, this initiative has evolved from an idea into a $3.4 billion full-scale commercial project that we will begin building in the second half of 2004, alongside our joint-venture partner, Nexen Inc. Our decision to integrate upgrading and SAGD at a field site and introduce secondary upgrading to take the bitumen to the next level is the strategic cornerstone of our approach to Long Lake's 1.9-billion-barrel resource base.

This next year will be one of transition – moving our Company from a period of intensive planning, testing and preparation to that of actually building the Long Lake Project. It's a significant challenge and we hold no illusions about its size and complexity. We have planned for it, with a high degree of scope definition and two to three times more upfront engineering than many other large oil sands projects have completed at a similar point in project development.

May 2001 > OPTI starts up the OrCrude™ demonstration plant, near Burnt Lake, Alberta. The 500-barrel-per-day facility successfully processes more than 250,000 barrels of Athabasca bitumen, making a valuable contribution to the design for the commercial OrCrude™ unit.

October 2001 > OPTI and Nexen sign a 50/50 joint venture agreement to develop the Long Lake Project, creating Canada's first integrated SAGD/upgrading oil sands development. The project is named for a small lake on Lease 27, an area that spans 20,000 hectares and is situated 40 kilometres south-east of Fort McMurray.

Here are a few of the most significant highlights that have brought us to this point:

→ **Assembling an exceptional team of new OPTI employees.**

OPTI continues to grow, and as of April 1, 2004, collectively over 400 Nexen and OPTI employees and consultants are now proud to be involved in every facet of our operation. They are responsible for the accomplishments you'll find in this report. We are fortunate to have attracted a number of highly experienced technical leaders. Between Nexen and OPTI, there are more than 1,500 years of large energy project engineering and construction experience on our team.

→ **Successfully demonstrating the OrCrude™ process.**

After completion in mid-2001, this 500-barrel-per-day demonstration facility processed over 250,000 barrels of bitumen from five in-situ oil sands projects in the Athabasca region, including bitumen from Long Lake. Even though the OrCrude™ Process incorporates proven, well-known technologies, it configures them in a new way, providing a unique upgrading solution. Emerging technologies usually encounter a healthy degree of skepticism from the marketplace and OPTI wanted to address this fully by proving the OrCrude™ Process works in Canada with Canadian bitumen. The OrCrude™ demonstration plant's scale was selected as the most flexible and able to provide the best information to assist in the detailed design of a full-scale commercial facility. Test results have exceeded expectations in terms of capacity, operability and reliability, enabling us to assess process yields, throughput capacity, run lengths and feedstock variations. The OrCrude™ demonstration plant also enabled testing of upgraded OrCrude™ products in hydrocracker test facilities.

July 2002 > A six-month construction process commences to create the SAGD pilot program at Long Lake. Construction is completed in January 2003 and the SAGD pilot starts producing bitumen in April.

January 2003 > OPTI and Nexen become joint signatories to the Athabasca Tribal Council, an agreement between five regional First Nations communities and local industries to set standards for consultation, promote economic self-sufficiency and develop productive working relationships.

→ Completing and operating the SAGD pilot project.

The SAGD pilot project at Long Lake began producing bitumen in mid-2003 and consists of three 800-metre horizontal well pairs, steam generation and bitumen treatment, and storage facilities. Its purpose is to confirm reservoir performance assumptions, evaluate well design, and obtain site-specific experience that will support full-scale commercial start-up. After a warm-up period, the wells were converted to SAGD production with bitumen volumes of between 1,000 to 1,500 bbls/d by early 2004. This year, volumes are forecast to increase to the design level of over 3,000 bbls/d.

→ Comprehensive resource delineation.

To the end of 2003, 295 core holes have been drilled and we have obtained 43 square kilometres of 3D seismic, providing us with a high level of resource definition in the 20-section first phase development area of the 85-section Long Lake lease. An independent evaluation by McDaniel & Associates Consultants Ltd. recognizes over 1.9 billion barrels of recoverable resource on the Long Lake lease, with almost 500 million barrels deemed proven on the initial 20-section area. In 2004, we plan on drilling 37 additional core hole wells to further delineate the Long Lake lease.

→ Designing and planning the commercial SAGD project.

Detailed drilling plans and well designs are complete and three slant drilling rigs are under construction. The rigs will be used to commence drilling 65 commercial SAGD well pairs in the fall of 2004. Nexen has extensive experience in thermal operations and will operate the SAGD portion of the Long Lake Project. Colt Engineering has been engaged to engineer and design the SAGD surface facilities which include a 170-MW cogeneration facility. This unit will provide some of the steam for the SAGD wells, electrical power for the SAGD facilities and upgrader, and generate surplus electricity that will be distributed into Alberta's power grid. The cost estimate for the SAGD project and cogeneration facility is $1.2 billion. Site clearing began in January 2004 and construction of the SAGD development will start later this year.

August 2003 > Alberta's Energy and Utilities Board formally approves Phases 1 and 2 of Long Lake's project development application, making Long Lake Alberta's first oil sands upgrader development to be granted approval without a public hearing.

February 2004 > The Boards of Directors of OPTI and Nexen grant formal approval to proceed with construction and full-scale commercial development of the Long Lake Project.

→ Designing and planning the upgrading project.

OPTI Canada will operate the upgrading component of the Long Lake Project. Fluor Canada Ltd. is the engineering company delivering design, planning and engineering for these facilities. Throughout 2003, up to 200 Fluor personnel, under the direct supervision of the owner's team have been directly involved and by year-end, the initial design was completed with a cost estimate of $2.1 billion. Construction is scheduled to commence in the fourth quarter of 2004.

→ Receiving regulatory approval without a public hearing.

In 2003, the Alberta Energy Utilities Board and Alberta Environment granted regulatory approval for the Long Lake project. This is the first time an upgrading project has received this level of regulatory endorsement without a public hearing, and is the result of the intensive consultation process and ongoing practice that the Long Lake team uses to engage all project stakeholders. OPTI and Nexen are committed to developing Long Lake in a safe, environmentally responsible manner. We also place significant value on building open, long-term relationships with the local community. We intend to be a good neighbour and long-term participant in the community.

→ Attracting significant investment interest.

On March 15, 2004, OPTI closed a private placement of common shares and equity commitments totalling $750 million. To our knowledge, a private equity placement of this magnitude is unprecedented in the Canadian energy industry. In addition, an underwriting commitment for an $800 million limited recourse project debt facility has been secured. The final step in our fundraising efforts was a $300-million initial public offering, which was completed in April 2004, with our common shares listed for trading under the symbol OPC on the Toronto Stock Exchange. These financings enabled OPTI to fully fund its 50% share of the estimated costs of the Long Lake Project. Our Company is pleased to have attracted a strong group of knowledgeable oil sands investors.

March 2004 > OPTI successfully closes a private placement of common shares and equity commitments totalling $750 million, the largest private equity placement of its kind to date in the Canadian energy industry. An $800-million limited recourse project debt facility is also secured.

April 2004 > OPTI completes a $300-million initial public offering and has its common shares listed on the Toronto Stock Exchange under the trading symbol "OPC".

Looking forward in 2004:

In 2004, OPTI will be embarking on the next phase in the development of the Long Lake Project and begin building this innovative oil sands facility. We plan to start field construction and construction of the SAGD facilities in the second half of 2004, building of the upgrading facilities in the fourth quarter, and drilling of the first commercial SAGD well pairs is scheduled prior to year-end. Steam injection is planned to start in the final quarter of 2006. Completion of construction and commencement of commercial upgrader operations are scheduled in mid-2007.

We are also actively assessing additional opportunities: the expansion of Long Lake, the development of our Jackfish leases and new opportunities for the OrCrude™ process. The future looks bright and we are delighted to be an active participant in Canada's oil sands industry.

On behalf of the Board of Directors, I would like to welcome all our new shareholders and thank them for their support. I also wish to acknowledge the contributions of our Board, employees and consultants. Everyone has contributed and worked diligently to get us to this point in OPTI's development. The next few years will be exciting and we look forward to reporting on the challenges and milestones that will bring us closer to the first production of low-cost, premium sweet crude oil from the Long Lake Project.

On behalf of the Board of Directors,

Sid W. Dykstra
President & CEO, OPTI Canada Inc.
April 15, 2004

Overview

This Management's Discussion and Analysis should be read in conjunction with OPTI's audited financial statements for the year ended December 31, 2003.

The Long Lake Project will be OPTI's first commercial activity. Accordingly, OPTI does not have any commercial operating results. OPTI has financed its share of project expenditures to date through a series of private equity offerings. OPTI's costs in relation to the Long Lake Project will be capitalized until the Project reaches commercial operations which are expected to take place in stages in 2007.

Accounting Policies

The timely preparation of financial statements requires that management of OPTI make various estimates that affect the amount and presentation of assets, liabilities, revenue, and expenses. These estimates are based on information available to management at each financial statement date.

OPTI follows the full-cost method of accounting for petroleum and natural gas operations, capitalizing all costs of exploring for and developing petroleum and natural gas reserves. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells, costs of testing the bitumen upgrading process and related overhead pre-operating charges. The capitalized costs, less undeveloped land costs, are depleted using the unit-of-production method based upon estimated proved reserves before royalties. In calculating depletion, petroleum and natural gas reserves are converted to a common unit of measure based on the relative energy content of each product. To date, no depletion has been recorded as commercial operations have not commenced. The capitalized costs less accumulated depletion and depreciation, future taxes and the provision for future site restoration costs are limited to an amount equal to the estimated future net revenues from proved reserves. This is based on current prices and costs,

plus the lower of cost and estimated fair value of unproved properties, less estimated future site restoration costs, estimated future development costs, general and administrative expenses, financing costs and income taxes. (This is commonly referred to as the "ceiling test"). Petroleum and natural gas operations are reviewed at each financial statement date for impairment or conditions which would indicate that capitalized costs are not recoverable through expected future cash flows. Where impairment exists, capitalized costs are reduced to the fair value with a corresponding charge to earnings.

A reduction in the estimate of reserves could result in a reduction in the net recoverable amount. The estimate of reserves is a subjective process. Forecasts are based on numerous uncertainties such as engineering data, projected future rates of production and commodity pricing, and the timing of future capital expenditures.

Operating costs, net of revenues in relation to activities that are considered to be in the development stage, are capitalized. Judgement is required to determine whether operations are in the development stage. The factors considered include, but are not limited to, whether commercially viable production levels have been achieved, whether the plant is producing a saleable product, whether the plant is operating at pre-determined operating levels in relation to commercial operations or other factors as circumstances warrant. Once the operations are no longer considered development stage, revenue is recognized and operating costs are recorded in earnings during the year.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Effective January 1, 2003, OPTI adopted the CICA Handbook section 3110, "Asset Retirement Obligations". This standard requires companies to recognize the fair value of the liability for asset retirement obligations in the period the obligation is incurred with a corresponding increase to the carrying amount of the related asset. The initial obligation recognized increases over time to reflect the impact of inflation until the future period in which the obligation is expected to be settled. The related asset will be amortized over its estimated useful life once commercial operations commence. The impact of the adoption of this standard in 2003 is to increase the value of property plant and equipment, asset retirement obligations and amortization expense and reduce net earnings.

In 2003, OPTI adopted the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This standard requires that the value of stock options issued is recognized in earnings in the financial statements in the period of issuance. The previous standard only required disclosure of the impact on earnings had the fair value method been used. Once the fair value of options is measured, the value is capitalized or expensed depending on attributes of employee activity to which the option grant relates. The impact of the adoption of this standard is to increase property, plant and equipment and general and administrative expenses and reduce net earnings.

New and Revised Accounting Pronouncements

In September 2003, the CICA issued a new guideline for petroleum and natural gas operations, Accounting Guideline 16, "Oil and Gas Accounting – Full Cost". This guideline is effective for years beginning on or after January 1, 2004. Adoption of this guideline is not expected by OPTI to have a material impact on its financial position or results of operations.

In September 2002, the CICA approved Section 3063, "Impairment of Long-Lived Assets" which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets, and applies to long-lived assets held for use. An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The new section is effective for fiscal years beginning on or after April 1, 2003. Adoption of this section is not expected by OPTI to have a material impact on its financial position or results of operations.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Interest and other income is comprised of interest income on cash and cash equivalents. It is affected by average cash balances and interest rates on deposits. Interest income increased to $1.9 million for the year ended December 31, 2003 from $1.8 million in 2002. The increase is due to higher average cash balances in 2003.

General and administrative expenses increased to $1.9 million in the year ended December 31, 2003 from $0.8 million in 2002. The increase from the prior period is due to the recognition of stock-based compensation expense in 2003 and increases in non-Project staff levels and related administrative expenses.

Amortization and accretion expense increased to $0.4 million in the year ended December 31, 2003 from $0.3 million in 2002. This is due to an increase in the amount of office equipment subject to amortization and an increase in accretion expense relating to asset retirement obligations.

Capital taxes increased to $0.5 million in the year ended December 31, 2003 from $0.3 million in 2002. This is due to an increase in net assets and long term liabilities at the end of the period upon which capital taxes are based.

Future tax recovery is $0.5 million for the year ended December 31, 2003 compared with an expense of $0.9 million in 2002. The year-to-date recovery in 2003 is primarily due to the reduction in future corporate tax rates from 42.1% to 34.6%, which was recognized in the second quarter of 2003.

Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

Interest income increased to $1.8 million during the year ended 2002 from $0.5 million in 2001 due to an increase in average cash balances during the period.

General and administrative expenses increased to $0.8 million for the year ended 2002 from $0.5 million in 2001 due to increases in Project and non-Project staff levels and related administrative expenses.

Amortization expense increased to $0.3 million for the year ended 2002 from $0.2 million in 2001 due to an increase in the amount of office assets and resulting amortization.

Capital taxes increased to $0.3 million for the year ended 2002 from $0.1 million in 2001 due to an increase in net assets and long-term liabilities at the end of the period.

The provision for future taxes increased to $0.9 million for the year ended 2002 from ($0.1) million in 2001 due to a cumulative adjustment to balances previously recorded in 2002.

Liquidity and Capital Resources

Substantially all of OPTI's liquidity is derived from financing activities. During the year ended December 31, 2003, OPTI raised $85.6 million through the issuance of equity shares. During the same year, interest income of $1.9 million was earned.

During the year ended December 31, 2003, OPTI invested $70.4 million, of which $66.9 million was in relation to the Long Lake Project, $3.1 million was for other oil sands activity and $0.4 million was for corporate assets. OPTI also had non-cash additions to property, plant and equipment of $0.2 million relating to asset retirement cost and $0.7 million for stock-based compensation.

At December 31, 2003, OPTI had no long-term debt or debt facilities and positive working capital of $67.0 million.

During the year ended December 31, 2002, OPTI raised $97.7 million though the issuance of Class C Common Shares and earned interest income of $1.8 million. During the year ended December 31, 2002, OPTI invested $58.1 million, of which $52.9 million was in relation to the Long Lake Project, $4.8 million was for non-Project activities and $0.4 million was for corporate assets. At December 31, 2002, OPTI had no long-term debt or debt facilities and positive working capital of $57.9 million.

OPTI's primary activity is the development of the Long Lake Project. The AFE Cost Estimate is the estimate of capital costs from January 1, 2004 until the commencement of commercial operations for the Long Lake Project. The AFE Cost Estimate of the Project is $3.384 billion. OPTI's expected capital expenditures for its 50% interest in the AFE Cost Estimate are $1.692 billion from 2004 to 2007. In addition to its interest in the Project, OPTI has other project activities and, to a lesser extent, requires capital for general and administrative expenses which would require additional financial resources. OPTI currently anticipates it will need to obtain total funding of $1.879 billion

to finance its 50% share of the Long Lake Project and fund other financial requirements, which include other project activities, general and administrative expenses, financing fees and debt service costs in the 2004 to 2007 period.

OPTI's cash on hand at the beginning of 2004 was $78 million and subsequently OPTI has arranged financing of $1.820 billion from the 2004 Private Placement, a flow through share offering, the Initial Public Offering, and a committed credit facility.

Financing Summary Subsequent to December 31, 2003

Subsequent to December 31, 2003, the Company completed a series of financing transactions that are intended to provide the funding for the Company's 50% share of capital expenditures for the Long Lake Project and other oil sands activities. These transactions represent some of the largest financings ever undertaken in Canada's energy industry for a company at this stage of development.

Common Shares Issued

	Common Shares	Gross Proceeds thousands
Private Placement – March 2004	37,761,665	$ 701,285
Flow-through Shares – March 2004	1,091,148	17,680
Initial Public Offering ("IPO") – April 2004	13,700,000	301,400
Total	52,552,813	$ 1,020,365

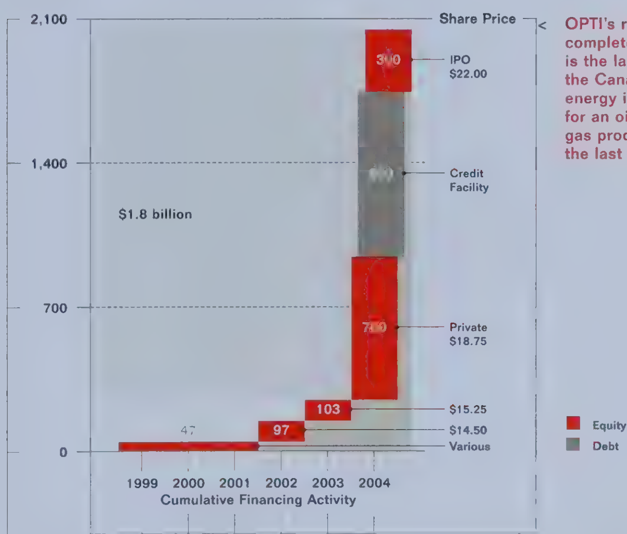
Outstanding as at December 31, 2003	22,964,717
Issued in 2004	52,552,813
Outstanding as at April 15, 2004	**75,517,530**
Shares issuable pursuant Series C **(see note 6a)**	781,639
Stock options	4,527,502
Common shares fully diluted	80,826,671

In connection with the IPO, the Company granted the underwriters an over-allotment option exercisable over 60 days to purchase up to 3.0 million shares for a period up to 60 days at a price of $22.00 per share which would result in additional gross proceeds of $66 million.

Debt Facility

On March 12, 2004, OPTI entered into an underwriting commitment for a credit facility of $800 million to fund a portion of the capital expenditures of the Long Lake Project. The credit facility will be available for funding subject to certain conditions being met prior to drawdown including progress reports prepared by independent engineers confirming costs and schedule on the Project and evidence that the remaining share of the Project's costs to achieve completion are not greater than the amount available under the credit facility. At the time of the private placement, OPTI entered into agreements relating to $70.7 million of call obligations. The call obligations are unconditional and irrevocable call options held by the Company. The purpose of these call obligations is to provide assurances to OPTI's lenders that surplus funding will be available to complete the Project should cost overruns occur and OPTI is unable to raise new additional equity. OPTI will be raising an additional $130 million of call obligations prior to making drawdowns on the credit facility.

EQUITY AND DEBT FINANCING
($ millions)



OPTI's recently completed IPO is the largest in the Canadian energy industry for an oil and gas producer in the last 10 years.

Management's Report

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies described in the notes to the financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets.

External auditors, appointed by the shareholders of the Company, have examined the financial statements and have expressed an opinion on the statements. Their report is included with the financial statements.

The Board of Directors of the Company has established an Audit Committee, consisting of non-management directors, to review financial statements with management and the auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Sid W. Dykstra
President & CEO
Calgary, Canada
February 5, 2004

George Crookshank
Chief Financial Officer

Auditors' Report

To the Directors of OPTI Canada Inc.

We have audited the balance sheets of OPTI Canada Inc. as at December 31, 2003 and 2002 and the statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Canada
February 5, 2004
(except as to note 12 which is at April 7, 2004)

Balance Sheets

OPTI Canada Inc.

in thousands, except share and per share amounts

As at December 31,	2003	2002 restated
ASSETS		
Current		
Cash and short-term investments	$ 78,341	$ 77,374
Accounts receivable and deposits	3,720	887
	82,061	78,261
Deferred financing charges	730	–
Property, plant and equipment (note 3)	153,780	82,651
	$ 236,571	$ 160,912
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 14,654	$ 20,085
Due to affiliated companies (note 5)	364	247
	15,018	20,332
Asset retirement obligation (note 4)	3,194	2,713
Future income taxes (note 7)	7,139	5,398
	25,351	28,443
SHAREHOLDERS' EQUITY		
Capital stock (note 6)	211,127	133,060
Contributed surplus	1,152	–
Deficit	(1,059)	(591)
	211,220	132,469
	$ 236,571	$ 160,912

Commitments (note 9)

Accompanying notes are integral to the financial statements

On behalf of the board of directors,

Sid W. Dykstra
Director

Robert G. Puchniak
Director

Statements of Loss and Deficit

OPTI Canada Inc.

in thousands, except share and per share amounts

Years Ended December 31,	2003	2002 restated	2001 restated
Interest and other income	$ 1,856	$ 1,801	$ 543
Expenses			
General and administrative	1,884	758	482
Amortization and accretion	416	273	213
	2,300	1,031	695
Earnings (loss) before tax	(444)	770	(152)
Income taxes (note 7)			
Capital taxes	475	289	84
Future tax expense (recovery)	(451)	889	(98)
	24	1,178	(14)
Net loss	(468)	(408)	(138)
Deficit – beginning of year	(591)	(183)	(45)
Deficit – end of year	(1,059)	(591)	(183)
Loss per share, basic and diluted	$ (0.02)	$ (0.03)	$ (0.01)

Accompanying notes are integral to the financial statements

Statement of Cash Flows

OPTI Canada Inc.

in thousands, except share and per share amounts

Years Ended December 31,	2003	2002 restated	2001 restated
Cash provided by (used in)			
Operating activities			
Net loss	$ (468)	$ (408)	$ (138)
Amortization and accretion expense	416	273	213
Stock-based compensation	298	–	–
Future tax expense (recovery)	(451)	889	(98)
	(205)	754	(23)
Net change in non-cash working capital	(8,147)	19,655	(1,038)
	(8,352)	20,409	(1,061)
Financing activities			
Proceeds from share issuance	85,627	97,699	5,350
Share issuance expenses	(5,218)	(6,452)	(445)
Deferred financing charges	(730)	–	–
Convertible debenture proceeds (payout)	–	(858)	6,319
	79,679	90,389	11,224
Investing activities			
Property, plant and equipment additions	(70,360)	(58,075)	(13,114)
Joint venture reimbursements	–	–	16,704
	(70,360)	(58,075)	3,590
Increase in cash	967	52,723	13,753
Foreign exchange loss	–	–	(241)
Cash and short-term investments – beginning of period	77,374	24,651	11,139
Cash and short-term investments – end of period	$ 78,341	$ 77,374	$ 24,651

Accompanying notes are integral to the financial statements

Supplemental Information			
Cash taxes paid	494	85	60
Cash interest received	2,106	1,548	277
Cash interest paid	20	254	479
Non-cash additions to property, plant and equipment	948	–	–

Notes to Financial Statements

OPTI Canada Inc.

Years Ended December 31, 2003, 2002 and 2001

in thousands, except share and per share amounts

1 > Summary of Operations

OPTI Canada Inc. ("OPTI" or the "Company") was incorporated on January 15, 1999. OPTI was registered in the province of Alberta on August 11, 1999 and continued under the Canada Business Corporations Act on May 30, 2002.

OPTI was established in 1999 to commercialize the OrCrude™ upgrading process and to develop integrated bitumen and heavy oil projects. Currently, its principal business is a fifty percent interest in the Long Lake oil sands project near Fort McMurray, Alberta (the "Joint Venture"). OPTI has an exclusive license to use the OrCrude™ upgrading technology in Canada. The Long Lake Project combines Steam Assisted Gravity Drainage bitumen extraction with an onsite upgrader using the OrCrude™ process. The upgrader also uses conventional hydrocracking and gasification technologies. OPTI is engaged in the development and construction of the Long Lake and other projects and does not anticipate commercial operations until approximately 2007.

2 > Summary of Significant Accounting Policies

a) Petroleum and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells, costs of testing the bitumen upgrading process and related overhead pre-operating charges. The capitalized costs, less undeveloped land costs, are depleted using the unit-of-production method based upon estimated proved reserves before royalties. In calculating depletion, petroleum and natural gas reserves are converted to a common unit of measure based on the relative energy content of each product. To date, no depletion has been recorded as commercial operations have not commenced. The capitalized costs less accumulated depletion and depreciation, future taxes and the provision for future site restoration costs are limited to an amount equal to the estimated future net revenues from proved reserves based on current prices and costs, plus the lower of cost and estimated fair value of unproved properties, less estimated future site restoration costs, estimated future development costs, general and administrative expenses, financing costs and income taxes (the "ceiling test"). Petroleum and natural gas operations are reviewed at each financial statement date for impairment or conditions which would indicate that capitalized costs are not recoverable through expected future cash flows.

Operating costs, net of revenues in relation to activities that are considered to be in the development stage, are capitalized. Judgement is required to determine whether operations are in the development stage. The factors considered include, but are not limited to, whether commercially viable production levels have been achieved, whether the plant is producing

2 > Summary of Significant Accounting Policies (continued)

a saleable product, whether the plant is operating at pre-determined operating levels in relation to commercial operations or other factors as circumstances warrant. Once the operations are no longer considered development stage, revenue is recognized and operating costs are recorded in earnings during the year.

in thousands, except share and per share amounts

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

b) Asset retirement obligations

Effective January 1, 2003, the Company adopted the CICA Handbook section 3110, "Asset Retirement Obligations". This standard requires companies to recognize the fair value of the liability for asset retirement obligations in the period it is incurred with a corresponding increase to the carrying amount of the related asset. Information with respect to the adoption of this standard is disclosed in note 4. The initial obligation recognized is accreted over time until the future period in which the obligation is settled. The related asset will be amortized over its estimated useful life once commercial operations commence.

c) Joint venture

A significant portion of the Company's activities are conducted within the Joint Venture. The accounts reflect the Company's proportionate interest in such activities.

d) Cash and short-term investments

Cash and short-term investments include cash, commercial paper, and money market funds that carry terms less than 90 days.

e) Corporate assets

Corporate assets are recorded at cost and amortization is calculated using the straight-line method based on estimated useful life of the asset which is three years.

f) Income taxes

The Company uses the liability method of accounting for income taxes. Future tax assets and liabilities are recognized based on differences in the financial statement carrying amount for assets and liabilities and the associated tax balance. Future taxes are measured based on substantially enacted tax rates in the period in which the temporary differences are expected to be realized or settled. If there is uncertainty in the realization of a tax asset, a valuation allowance reduces or eliminates the tax asset recorded.

g) Flow-through shares

Tax deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Share capital is reduced by the estimated cost of the renounced tax deductions when the shares are issued.

2 > Summary of Significant Accounting Policies (continued)

in thousands, except share and per share amounts

h) Foreign currency translation

Monetary assets and liabilities are translated at exchange rates in effect on the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities and expenses are translated at rates in effect at the date of the transaction. Exchange gains and losses resulting from translation are included in earnings.

i) Stock-based compensation plans

In 2003, the Company adopted the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". This standard requires the recognition of the value of stock options issued in the financial statements in the period of issuance. The Company calculates the value of stock options issued using the Black Scholes options pricing model with consideration of factors specific to the Company. Once fair value of options granted is measured, the value is capitalized or expensed, over the period the options vest, depending on attributes of the employee activity with a corresponding increase to contributed surplus. This information is disclosed in note 6.

j) Loss per share

Loss per share is calculated using net loss and the weighted average number of common shares outstanding during the year. The weighted average number of common shares of all types outstanding during the year ended December 31, 2003 is 20,577,354 (2002 – 12,794,221; 2001 – 9,612,484). The Company uses the treasury method of calculating diluted loss per common share. The effects of potentially dilutive instruments on loss per share are not dilutive.

k) Derivative instruments

The Company occasionally uses derivative instruments to address its exposure to capital expenditures denominated in US dollars. At each financial statement date, unless the instrument has been designated as a hedge, the value of any outstanding derivative contract is assessed and any change in value from the previous financial statement date is recorded in earnings.

l) Use of estimates

The timely preparation of financial statements requires that management make various estimates that affect the amount and presentation of assets, liabilities, revenue, and expenses. These estimates are based on information available to management at each financial statement date. The estimate of the percentage of completion of various projects at the financial statement date affects property, plant and equipment additions and the related accrued liability. Various estimates are required in consideration of impairment of costs capitalized for the Long Lake project and other resource assets. Consideration of impairment includes estimates relating to overall project costs, regulatory approval, project timing, commodity prices, the general economic environment, and the ability to finance future activities through the issuance of debt or equity. The estimate related to asset retirement obligations requires

2 > Summary of Significant Accounting Policies (continued)

estimates of the amount and timing of future abandonment liabilities, inflation, and interest rates. The recognition of amounts in relation to stock-based compensation requires estimates related to valuation of stock options at the time of issuance. Should factors affecting these assumptions change, the impact on these financial statements could be material.

in thousands, except share and per share amounts

3 > Property, Plant and Equipment

December 31,	2003	2002 Restated
Long Lake Project	**$ 141,671**	$ 74,096
Other resource assets	**9,183**	6,059
Corporate assets	**816**	451
Asset retirement cost	**2,370**	2,126
	154,040	82,732
Accumulated amortization – corporate assets	**(260)**	(81)
	$ 153,780	$ 82,651

During the year ended December 31, 2003, the Company capitalized $1,066 (2002 – $773) of general and administrative expenses. With the exception of corporate assets, no depletion, depreciation or amortization has been recorded as commercial operations have not commenced.

4 > Asset Retirement Obligations

The Company's obligations with respect to asset retirement relate to reclamation of sites used for construction of facilities and drilling activities. The obligation is recognized in the period in which the obligation is incurred based on the estimated future reclamation cost using a discount rate of 8.7% and an inflation rate of 3%. The total undiscounted future obligation is $4,950. The change in accounting policy has been applied retroactively with restatement of prior periods. The impact of the adoption is shown below:

As at December 31, 2002	As Reported	Changes	Restated
Restated – Balance Sheet			
Asset retirement cost	$ nil	$ 2,126	$ 2,126
Asset retirement obligation	nil	2,713	2,713
Future tax liability (asset)	5,567	(169)	5,398
Deficit	$ (173)	$ (418)	$ (591)

Year ended December 31, 2002	As Reported	Changes	Restated
Restated – Statement of Earnings			
Accretion expense, included in amortization	$ Nil	$ 213	$ 213
Future tax expense (recovery)	984	(95)	889
Net loss	$ (290)	$ (118)	$ (408)

4 > Asset Retirement Obligations (continued)

in thousands, except share and per share amounts

Year ended December 31, 2001	As Reported	Changes	Restated
Restated – Statement of Earnings			
Accretion expense, included in amortization	$ Nil	$ 195	$ 195
Future tax expense (recovery)	(24)	(74)	(98)
Net loss	$ (17)	$ (121)	$ (138)

Continuity of Asset Retirement Obligation	
Present value of obligation at January 1, 2001	$ 2,252
Accretion expense	195
Present value of obligation at December 31, 2001	2,447
Liabilities incurred during the year	53
Accretion expense	213
Present value of obligation at December 31, 2002	2,713
Liabilities incurred during the period	244
Accretion expense	237
Present value of obligation at December 31, 2003	**$ 3,194**

The Company estimates its obligations related to facilities and drilling activities will be settled in 2004 and periods up to 2028 respectively.

5 > Due to Affiliated Companies

OPTI Technologies BV, a significant shareholder of the Company, provides management services and seconded employees to the Company. The Company reimburses OPTI Technologies BV or its affiliates for the actual cost of all personnel provided to the Company. This includes salaries, applicable taxes, employee benefits, bonuses and out-of-pocket expenses. In addition, a flat fee is paid in respect of overhead costs. In the year ended December 31, 2003, the Company incurred costs of $836 (2002 – $971; 2001 – $1,090) for these services and fees.

ORMAT Industries Ltd., the parent company of OPTI Technologies BV, provides engineering services to the Company. The services provided are charged at competitive market rates. In the year ended December 31, 2003, the Company incurred costs of $1,748 (2002 – $1,740; 2001 – $1,429) in respect of engineering services provided by ORMAT Industries Ltd.

As of December 31, 2003, $143 and $221 (2002 – $99 and $148) respectively, were payable to OPTI Technologies BV and its subsidiaries and to ORMAT Industries Ltd.

OPTI has the exclusive rights to certain technology licenses which were originally obtained from OPTI Technologies BV in 1999. In relation to these licenses, OPTI has agreed to pay a royalty based on the installed cost of certain upgrading units utilized by the Company. For the Long Lake Project, the royalty is estimated to be $7,250 and is expected to be payable in 2007.

6 > Capital Stock

in thousands, except share and per share amounts

Authorized

- Unlimited number of voting Class A, non voting Class B and voting Class C common shares without nominal or par value

Issued and outstanding

- The issued and outstanding Class C common shares reflect the Reorganization (note 10) applied on a retroactive basis.

Class C Common Shares	Number of Shares	
Balance – December 31, 2001	6,745,920	$ 4,992
Exchange of preferred shares	3,278,266	28,422
Conversion of debentures	847,657	8,961
Issued for cash	6,168,932	89,449
Share issue costs		(6,452)
Issued for cash – flow through	515,625	8,250
Tax effect on flow-through shares and share issue costs		(712)
Balance – December 31, 2002	17,556,400	132,910
Issued for cash – flow through (a)	550,820	11,550
Issued for cash	4,857,497	74,077
Share issue costs		(5,218)
Tax effect on flow-through shares and share issue costs		(2,192)
Balance December 31, 2003	**22,964,717**	**$ 211,127**
Share Purchase Warrants		
Balance – December 31, 2002	83,300	150
Balance – December 31, 2003 (d)	–	–

a) Flow-through shares

In June 2003, the Company entered into a financing arrangement with subscribers for the issuance of Class C common shares in three separate parts; Series A, B and C, all of which are on a flow-through basis. Flow-through shares allow for the tax deductions related to expenditures incurred by the Company to be renounced or flowed through to the investor.

Under Series A, the Company issued 525,000 shares at $22.00 per share for cash proceeds of $11,550 in June 2003. Under Series B, a further 1,040,000 shares at $17.00 per share for proceeds of $17,680 may be issued at the option of either the subscriber or the Company subject to the completion of renouncements under Series A or certain initial public offering ("IPO") conditions. The subscriber has provided security in trust in support of the commitment under Series B. Under Series C, a further 745,000 shares at $18.00 per share for proceeds of $13,410 may be issued conditional upon the completion of renouncements under Series B and certain IPO conditions at the option of either the subscriber or the Company.

6 > Capital Stock (continued)

in thousands, except share and per share amounts

On August 8, 2003, the Company completed a repricing arrangement of these flow-through shares. Under the arrangement, shares issued under Series A were re-priced to $20.97 which resulted in the issuance of an additional 25,820 Class C common shares. The price per share and number of shares issuable under Series B were amended to $16.20 and 1,091,148 respectively. For Series C, the price per share and number of shares issuable were amended to $17.16 and 781,639 respectively. The total proceeds under each series remains unaffected and the other conditions described were unchanged.

b) Outstanding stock options

The Company may grant stock options to executives, certain employees, consultants, and non-employee directors as determined by the Board of Directors. The exercise price of each option is determined by the Board based on the fair value of the Company's common shares at the date of the grant. Vesting rights are determined at the discretion of the Board. Under the Company's plans, options vest at the time of grant or over a five-year period. Options currently outstanding expire at dates between 2005 and 2013.

OPTI entered into anti-dilutive stock option agreements (the "Anti Dilution Agreement") with two members of OPTI's senior management in consideration of initiating the development of the technology and the company. The Anti Dilution Agreement provides for the issuance of Class C common share options to acquire that number of shares that in total is equal to 7.5% of the number of shares issued by OPTI, other than those issued in relation to the Anti Dilution Agreement and prior to an IPO of OPTI. Shares issued in conjunction with, or subsequent to, an IPO of OPTI will not be subject to the terms of this agreement. Options issued under this agreement vest immediately, have a six-year term, have an exercise price equal to the price per share for which the shares were issued and are of the class to which the share issuance relates. OPTI is not obligated to grant options under the Anti Dilution Agreement if the individuals are not employees of OPTI or any subsidiary of ORMAT Industries Ltd at the date of issuance of the shares by OPTI.

At December 31, 2003, there are 978,540 Class C common share options, all of which are exercisable with a weighted average exercise price of $14.83. At December 31, 2003, there are 625,000 Class B common share options, of which 122,000 are exercisable with a weighted average exercise price of $10.10.

Options Outstanding	Options	Exercise Price	Remaining Contractual Life (years)
Balance December 31, 2001	185,000	$ 10.43	8.4
Granted	732,916	14.00	6.3
Balance December 31, 2002	917,916	13.28	6.5
Granted	705,624	15.37	7.1
Cancelled	(20,000)	14.50	9.1
Balance December 31, 2003	**1,603,540**	**$ 14.18**	**6.3**

6 > Capital Stock (continued)

in thousands, except share and per share amounts

c) Stock-based Compensation

During the year ended December 31, 2003, 705,624 common share options were granted which had a total fair value of $1,582. The fair value was calculated at the date of each grant using the following assumptions; a risk-free interest rate of 5%, a term of eight years, a volatility of zero and no dividends were assumed to be paid. The following amounts were recorded in the year ended December 31, 2003 for stock-based compensation;

Year ended December 31,	2003
Stock-based compensation, included in property plant and equipment	$ 704
Stock-based compensation, included in general and administrative expenses	298
Increase to contributed surplus	**$ 1,002**

During the year ended December 31, 2002, 732,916 common share options were granted which had a total fair value of $1,427. The fair value was calculated at the date of each grant using the following assumptions; a risk free interest rate of 5%, a term of seven years, a volatility of zero and no dividends were assumed to be paid. Had the stock-based compensation been adopted in 2002, the following values, which reflect vesting, would have been recognized in the financial statements.

Pro Forma Changes to Year Ended December 31,	2002
Pro forma increase in property plant and equipment	$ 862
Pro forma increase in general and administrative expenses	335
Pro forma increase to contributed surplus	1,197
Pro forma net earnings	(743)
Pro forma basic and diluted loss per share	$ (0.06)

d) Warrants

In 2000, 83,300 warrants were granted to the share issue agent, which gives the agent the right to acquire 83,300 Class A common shares. The warrants expired unexercised on December 31, 2003 and the value was recorded in contributed surplus.

7 > Income Taxes

The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate of 40.75% (2002 – 42.12%; 2001 – 42.62%). A reconciliation of the two rates and the dollar effect is as follows:

in thousands, except share and per share amounts

Years Ended December 31,	2003	%	2002	%	2001	%
Taxes (recovery) based on book earnings	$ (181)	41	$ 321	42	$ (65)	43
Resource allowance	276	(62)	473	62	53	(35)
Large corporations tax	475	(107)	289	38	84	(55)
Non-taxable portion of foreign exchange gain	–	–	–	–	(56)	37
Tax rate changes on future income taxes	(783)	176	–	–	(33)	21
Stock-based compensation	136	(30)	–	–	–	–
Other	101	(23)	95	13	3	(2)
Tax provision (recovery)	$ 24	(5)	$ 1,178	155	$ (14)	9

Significant components of the Company's future tax liabilities are as follows:

December 31,	2003	2002 Restated
Tax depreciation in excess of book depreciation	$ 9,396	$ 5,792
Asset retirement obligation	(1,106)	(169)
Tax pools renounced related to flow-through shares	3,999	3,475
Benefit of share issuance costs	(2,885)	(2,423)
Losses for income tax purposes	(2,265)	(1,277)
	$ 7,139	$ 5,398

Losses for income tax purposes of $3,057 and $3,451 expire in the years 2009 and 2010 respectively.

8 > Fair Value of Financial Instruments

The Company's financial instruments are comprised of cash, short-term investments, accounts and other receivables, due to affiliated companies, accounts payable and accrued liabilities. The fair value of the financial instruments approximates their carrying value due to the short-term nature of the instruments.

8 > Fair Value of Financial Instruments (continued)

in thousands, except share and per share amounts

a) Credit risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and short-term investments and accounts receivable. Cash and short-term investments are in place with major financial institutions. Concentrations of credit risk with respect to accounts receivable are relatively high due to large balances owing periodically from a Joint Venture partner (note 1).

b) Foreign currency risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Company's results. The Company is subject to risk associated with the purchase of equipment and services denominated in foreign currencies.

c) Interest rate risk

The Company is exposed to interest rate risk in relation to interest income earned on cash and short-term investments.

9 > Commitments

The Company is committed to lease office space for $22 per month until July 31, 2005, and an additional $5 per month until July 31, 2006. The remaining minimum lease payments are $468 over the balance of the terms.

The Company is in the process of developing the Long Lake Project. In connection with this development the Company has entered into, and expects to enter into, various agreements in the normal course of business for services and products. Typically, these agreements provide that certain approvals or milestones must be achieved prior to the recognition of a liability by the Company.

10 > Reorganization

On May 30, 2002 pursuant to an agreement dated March 8, 2002 among the Company and each of the shareholders and holders of convertible debentures of the Company, a reorganization of the Company was undertaken such that:

- An unlimited number of Class C voting common shares ("Class C shares") were authorized;
- The Class A & B preferred convertible voting shares ("Class A & B preferred shares") are no longer part of the authorized share capital of the Company;
- Each outstanding Class A voting common share ("Class A share") was exchanged for 10,000 Class C shares;
- Class A preferred shares in the amount of 1,608,217 were exchanged for 1,864,085 Class C shares and Class B preferred shares in the amount of 1,670,000 were exchanged for 1,414,181 Class C shares;
- Convertible debentures of $8,961 of the Company were exchanged for 847,657 Class C shares and $858 of convertible debentures was repaid to the holders.

11 > Comparative Figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year. In addition, the retroactive effect of the adoption of CICA Handbook section 3110, "Asset Retirement Obligations" has been included in comparative figures where applicable, see note 4.

in thousands, except share and per share amounts

12 > Subsequent Events

a) Flow-through shares

On February 13, 2004 the Company issued a notice that in relation to previously issued Series B flow-through shares (see note 6(a)), it had fulfilled the IPO condition. On March 15, 2004, 1,091,148 common shares were issued to the subscriber at a price of $16.20 per share for gross proceeds of $17,680.

b) Private placement

On March 15, 2004, the Company completed a private placement consisting of Class C shares, Class C shares issued on a flow-through basis and call obligations (the "Private Placement"). Proceeds of $701,285 were received by the Company and 37,761,665 Class C shares were issued. In addition, the Company entered into agreements relating to $70,745 of call obligations. The call obligations consist of unconditional and irrevocable call options whereby the Company, at its option, can require a subscription for either a convertible preferred share or a Class C share for each call obligation. The Company can exercise the call obligations at any time until the earlier of completion of the Long Lake Project and June 30, 2008. The Company incurred expenses of $1,260 and agents' commissions of $27,852 were paid in connection with the Private Placement.

c) Bank financing

On March 12, 2004, the Company signed an underwriting commitment for an $800-million credit facility with three Canadian chartered banks. The credit facility will be available to the Company for funding construction costs of the Long Lake Project. Prior to initial drawdown of the facility, certain conditions precedent need to be met including evidence that the remaining share of the Project costs to achieve completion are not greater than the amount available under the credit facility. Fees of $5,438 were paid to the banks in connection with the underwriting commitment.

d) Initial public offering

On April 7, 2004, the Company entered into an underwriting agreement in relation to a proposed initial public offering. Under the initial public offering, 13,700,000 common shares were issued for proceeds of $286,330, net of underwriters' commissions of $15,070. Pursuant to the initial public offering, the underwriters, pursuant to the underwriting agreement, have an option to purchase up to 3,000,000 common shares at $22.00 per share for a period of 60 days from closing, solely to address over-allotments, if any, and for market stabilization purposes.

Senior Management

OPTI Canada Inc.

	Experience	Previously
Sid W. Dykstra, B.Sc. (Chemical Engineering), M.B.A. President & CEO	> 20+ years industry and leadership	> President, Hunt Oil Company of Canada > Co-founder, President & COO, Newport Petroleum > Thermal heavy oil experience at Suncor
George Crookshank, M.B.A., C.A. Vice President & Chief Financial Officer	> 20+ years of oil and gas finance experience	> CFO, EnSource Energy > CFO, Newport Petroleum > Extensive exposure to heavy oil as CFO of CS Resources
Jim Arnold, B.Sc. (Mechanical Engineering) Vice President, Development & Project Director	> Co-inventor, Integrated OrCrude™ Upgrader > 20 years production, reservoir and facilities experience > Joined OPTI Canada in 2000 to develop Long Lake Project	> General Manager of Heavy Oil, Canadian Occidental Petroleum (now Nexen) > General Manager of Facility Engineering and Construction, Canadian Occidental Petroleum
Mary Bulmer, B.A. (Psychology), M.Sc. (Counselling Psychology) Vice President, Human Resources and Administration	> 13+ years experience with oil and gas companies	> Vice-President, HR and Corporate Services, Hunt Oil Company of Canada > Director, Human Resources, Koch Petroleum Canada > Human Resources Advisor, Amoco Canada
Jamey Fitzgibbon, B.A.Sc. (Chemical Engineering), M.B.A. Vice President, Resource Development	> 15+ years experience in in-situ thermal bitumen and heavy oil reservoir operations > Joined OPTI Canada in 2002	> Vice-President, Investment Banking, TD Securities Inc. > Heavy Oil Development Manager, Ranger Oil Limited > Managerial and technical positions at Imperial Oil (Cold Lake)
Randall Goldstein, B.A. (Economics), M.Sc. (Energy Management & Policy) President, ORMAT Process Technologies Inc.	> 20+ years experience developing independent power projects > Co-inventor, OrCrude™ Process	> Co-founder and CFO, National Power Company > Manager Project Finance, Harbert Power Group > Manager Project Finance, ORMAT Energy Systems Inc.
Phil Rettger, B.Sc. (Economics), M.B.A Vice President, ORMAT Process Technologies Inc.	> 20+ years energy project development > Co-inventor, OrCrude™ Process	> Principal, National Power Company > Senior Vice-President & Founding Shareholder, Oxford Energy Company

Board of Directors

OPTI Canada Inc.

	Experience	Previously
Lucien Bronicki, M.Sc. (Mechanical Engineering) Chairman, CEO & Founder ORMAT Industries Ltd. & subsidiaries	> 30+ years sustainable energy leadership	> Co-Chairman, Orbotech Ltd. > President & Technical Director, ORMAT Turbines Ltd. > Head of Solar Turbine Team, National Physical Laboratory of Israel > Member, World Energy Council Commission "Energy for Tomorrow's World"
Dita Bronicki, B.A. Deputy Chairman & Corporate Secretary	> 30+ years sustainable energy leadership > Managing Director & Co-Founder, ORMAT Industries Ltd. & subsidiaries > Director, Orbotech Ltd.	> Member, Advisory Board, Bank of Israel
Yoram Bronicki, B.Sc. (Mechanical Engineering) Vice President, OrCrude™ Upgrading	> Co-inventor, OrCrude™ Process > Joined OPTI Canada in 2001 to develop OrCrude™ technology	> Project Manager, ORMAT Industries Ltd.
Geoffrey A. Cumming, B.A. (Hons), M.Sc. (Economics) Independent Director	> Vice Chairman, Gardiner Group Capital Limited > Chairman, Western Oil Sands Inc. > 23+ years energy and investment management > Director, New Zealand Refining Company, Cequel Energy and other public and private companies in Canada and internationally	> President & CEO, Gardiner Oil and Gas Limited > Governor, Canadian Association of Petroleum Producers
Sid W. Dykstra, B.Sc. (Chemical Engineering), M.B.A. President & CEO	> 20+ years industry and leadership	> President, Hunt Oil Company of Canada > Co-founder, President & COO, Newport Petroleum > Thermal heavy oil experience at Suncor

	Experience	Previously
Don Garner, B.Sc. (Mechanical Engineering) Independent Director	> President & CEO, PrimeWest Energy Inc. > 25+ years oil sands/ energy management	> President & COO, Northstar Energy Corporation > Imperial Oil – executive responsible for Oil Sands Business Unit > Director, Syncrude Canada Limited
Randall Goldstein, B.A. (Economics), M.Sc. (Energy Management & Policy) President, ORMAT Process Technologies Inc.	> 20+ years experience developing independent power projects > Co-inventor, OrCrude™ Process	> Co-founder and CFO, National Power Company > Manager Project Finance, Harbert Power Group > Manager Project Finance, ORMAT Energy Systems Inc.
Robert G. Puchniak, B. Comm. (Hons), CFA Independent Director	> Executive Vice President & CFO, James Richardson & Sons, Limited > Director, Western Oil Sands Inc. > 30+ years energy and investment company management	> President & CEO, Tundra Oil and Gas Ltd.
Itschak Shrem, B.A. (Economics), M.B.A. Independent Director	> Chairman & Founder, Shrem, Fudim, Kelner & Co. > 25+ years business leadership experience	> COO, Clal (Israel) – one of Israel's largest conglomerates
James Stanford, B.Sc. (Petroleum Engineering), B.Sc. (Mining) Independent Director	> President, Stanford Resource Management Inc. > Director, EnCana Corporation, NOVA Chemicals Corporation, Inco Limited, Terasen Inc., OMERS Resources, logen Corporation and others > Chairman, Canadian Foundation for Sustainable Development Technology > 40+ years major energy company leadership	> President, CEO & COO, Petro-Canada > Management positions, Mobil Oil Canada

Head Office

OPTI Canada Inc.
Suite 2250
520 – 5th Avenue S.W.
Calgary, Alberta
Canada T2P 3R7

Telephone: (403) 249-9425
Facsimile: (403) 225-2606
Email: info@opticanada.com

Community Office

Long Lake Project
Community Office
P.O. Box 232
Anzac, Alberta
Canada T0P 1J0

Telephone: (780) 334-2850
Facsimile: (780) 334-2860

For more information about OPTI Canada Inc. and the Long Lake Project, please visit these websites:

www.opticanada.com
www.longlake.ca

Exchange Listing*
Symbol: OPC
Toronto Stock Exchange
*as of April 15, 2004

Auditors
PricewaterhouseCoopers LLP
Calgary, Alberta

Solicitors
Macleod Dixon LLP
Calgary, Alberta

Transfer Agent
Valiant Trust Company
Calgary, Alberta

Investor Enquiries

George Crookshank
Chief Financial Officer

Telephone: (403) 218-4710
Facsimile: (403) 225-2606

Head Office

OPTI Canada Inc.
Suite 2250
520 – 5th Avenue S.W.
Calgary, Alberta
Canada T2P 3R7

Telephone: (403) 249-9425
Facsimile: (403) 225-2606
Email: info@opticanada.com

Community Office

Long Lake Project
Community Office
P.O. Box 232
Anzac, Alberta
Canada T0P 1J0

Telephone: (780) 334-2850
Facsimile: (780) 334-2860

For more information about OPTI Canada Inc. and the Long Lake Project, please visit these websites:

www.opticanada.com
www.longlake.ca

Exchange Listing*
Symbol: OPC
Toronto Stock Exchange
*as of April 15, 2004

Auditors
PricewaterhouseCoopers LLP
Calgary, Alberta

Solicitors
Macleod Dixon LLP
Calgary, Alberta

Transfer Agent
Valiant Trust Company
Calgary, Alberta

Investor Enquiries

George Crookshank
Chief Financial Officer

Telephone: (403) 218-4710
Facsimile: (403) 225-2606

This annual report's cover and text paper contains 10% postconsumer recovered fibre; financial paper contains 20% postconsumer recovered fibre.

Concept, design and production by **Perspectives MGM Inc.** and **Ivy Design Inc.**
Photography by Kate Kunz, Todd Korol and **David Coll.**
Printed in **Canada** by **Blanchette Press.**

OPTI
CANADA INC.

plan plan plan plan plan plan plan plan plan plan plan plan plan plan
an plan. plan plan plan plan plan plan plan plan plan plan plan plan pl
plan plan plan plan plan plan plan plan plan plan plan plan plan plan
an plan plan plan plan plan plan plan plan plan plan plan plan plan pla
plan plan plan plan plan plan plan plan plan plan plan plan plan plan
an plan plan plan plan plan plan plan plan plan plan plan plan plan pl
plan plan plan plan plan plan plan plan plan plan plan plan plan plan

n plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan pla
n plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
an plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
n plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan
plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan pl
n plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan plan